

Published by:



[www.queensu.ca/msp](http://www.queensu.ca/msp)

**Partners:**

University of the Witwatersrand (South Africa)

Queen's University (Canada)

South African Municipal Workers Union

International Labour Resource and Information Group (South Africa)

Canadian Union of Public Employees

This project is funded by the  
Canadian government through the  
International Development Research Centre (IDRC)

# **LESSONS FROM ARGENTINA**

## **The Buenos Aires Water Concession**

# **Municipal Services Project**

## **Occasional Papers No.2**



## **Municipal Services Project**

### Occasional Papers Series **Number 2**

April 2001

#### **LESSONS FROM ARGENTINA:**

The Buenos Aires Water Concession

by  
Alex Loftus and  
David A McDonald

#### **Series Editors**

David A McDonald  
and Patrick Bond

## ABOUT THE PROJECT

The Municipal Services Project is a multi-year research, policy and educational initiative examining the restructuring of municipal services in South(ern) Africa. The project's central research interests are the impacts of decentralization, privatization, cost recovery and community participation on the delivery of basic municipal services like water, sanitation and electricity to the rural and urban poor. The research has a participatory and capacity building focus in that it involves graduate students, labour groups, NGOs and community organizations in data gathering and analysis. The research also introduces critical methodologies such as 'public goods' assessments into more conventional cost-benefit analyses.

Research results are disseminated in the form of these Occasional Papers publications, a project newsletter, academic articles and books, popular media, television documentaries and the internet. The project website is located at [www.queensu.ca/msp](http://www.queensu.ca/msp).

Research partners are the University of the Witwatersrand (Johannesburg), Queen's University (Canada), the International Labour Resource and Information Group (Cape Town), the South African Municipal Workers Union, and the Canadian Union of Public Employees. The project is funded in part by the partner institutions and by the International Development Research Centre (IDRC) of Canada.

### Acknowledgments:

The authors would like to thank Itziar Gomez-Carrasco for her translation work and insights. We would also like to thank Daniel Azpiazu, Eduardo Basualdo and Martin Schorr of La Facultad Latinoamericana de Ciencias Sociales (FLACSO) and Carlos Vilas of the Instituto Argentino para el Desarrollo Económico (IADE) in Buenos Aires for their assistance in conducting the research. The opinions expressed here remain those of the authors.

ISBN 0-88911-970-8

© 2001 Municipal Services Project

Design and layout: jon berndt DESIGN

Printed and bound by Logo Printers

## Table of Contents

|  |    |
|--|----|
| Executive Summary  | 1  |
| Introduction   | 5  |
| The Legacy of Peronism   | 6  |
| A Shift to Neoliberalism   | 7  |
| The Process of Privatizing Water   | 9  |
| Co-opting Labour   | 10 |
| “There Is No Alternative”  | 12 |
| The Bidding Process and Awarding the Contract                              | 13 |
| The Regulatory Agency (ETOSS)  | 15 |
| Outcomes of the Privatization  | 17 |
| Network Expansion  | 17 |
| Cost of Water  | 19 |
| The Crisis of the “Infrastructure Charge” and the Introduction of the SUMA | 21 |
| Corruption   | 24 |
| Environmental Effects  | 25 |
| Labour   | 27 |
| Conclusions  | 29 |

|   |    |
|---|----|
| References  | 32 |
| List of Tables  |    |
| Table 1: Capital Stock Breakdown of Aguas Argentinas                    | 13 |
| Table 2: Coverage and Performance Levels at the Start of the Concession | 15 |
| Table 3. Aguas Argentinas' Five Yearly Performance Targets              | 18 |
| Map   |    |
| Map of the Buenos Aires Water Concession                                | 14 |

---



---

## EXECUTIVE SUMMARY

*Lyonnais des Eaux has come knocking on my door on two occasions. These French water companies have become too powerful to resist. The take-over is inevitable.*

Interview with a senior water manager, Cape Town, July 2000

As part of its research mandate the Municipal Services Project has been conducting comparative studies on the privatization of municipal services in other parts of Africa and Latin America. This report presents the findings of a study of the private water and sanitation concession in Buenos Aires, Argentina. This is the first major English-language study of the concession conducted outside of the World Bank Group since the concession began in 1993.

The decision to conduct research on the Buenos Aires water system was taken for several reasons. First, it is one of the largest water concessions in the world – servicing a population of 10 million people – and has been hailed as a success story internationally. It is important, therefore, that South African policy makers review this model in their own deliberations over private sector involvement in water and sanitation delivery.

Second, the major shareholder in the consortium that operates the water concession in Buenos Aires is Suez Lyonnaise des Eaux, a large French multinational that is also active in South Africa. Lyonnaise des Eaux is involved in the Johannesburg water management contract and has been actively pursuing contracts in other South African cities, as the opening quote to this executive summary attests to.

Third, there have been at least two trips to Buenos Aires by South African policy makers and bureaucrats to review the water concession as a possible model for South African municipalities. The first trip, taken in 1997 by a councilor and a senior engineer from Cape Town (paid for by

the French government), was extremely positive in its evaluation of the concession, arguing that it has been “remarkably successful” in turning around an otherwise “potentially disastrous situation” (Bekker and Marsden 1997, 10). A second trip taken in May of 2000, involving 12 senior local government officials from various parts of South Africa, was similarly positive in its review (PADCO 2000).

Our own research findings are much more critical of the concession. Although there have been some positive developments in terms of investments in infrastructure and the extension of services since 1993 there have been some major failures as well. While some of these failures are unique to Buenos Aires and the politics of Argentina, they do raise some more general questions around the role of the private sector in the delivery of municipal services, and challenge some of the widely held arguments in favour of privatization.

The following paragraphs provide a brief overview of the main findings of our research, with a specific focus on the themes of accountability and efficiency. Our intention here is to flag what we consider to be the most serious problems with the Buenos Aires water concession in hopes of contributing to the ongoing debate over private sector involvement in the water and sanitation sectors in South Africa.

### Accountability

One of the core arguments made in favour of privatizing municipal services is that it generates better public accountability. The experience of the water concession in Buenos Aires, however, has been just the opposite. Starting with a Presidential Decree in 1989 which unilaterally declared that the city’s water and sanitation would be run by the private sector (an announcement made shortly after the declaration of an “economic state of emergency” and under apparent pressure from international financial institutions), all decisions about the extent and scope of privatization in these sectors were made behind closed doors. There was no public debate on the matter, and the first (and only) public consultation did not take place until June, 2000, seven years after the concession had begun.

Of equal concern is the fact that the independent regulator set up to monitor the activities of the private company has been effectively marginalized by both the firm and by the national government, with the latter intervening on several occasions to over-rule decisions made by the regulator. Corruption may play a part here, but more important are the

inherent power asymmetries that give Aguas Argentinas (the name of the private consortium) the upper hand in most of the negotiating processes.

Even the union representing workers has been remarkably silent during the privatization process. Despite the loss of almost half its workforce, and the casualization of new hiring, union leadership has been effectively neutralized through a lucrative share-option plan which grants employees up to 10 percent of the company, and through appointments to well-paid positions. The union has offered no sustained critical opposition to the privatization process and has even sent representatives to other countries to promote the Buenos Aires water model.

Rather than becoming more accountable to the public, Aguas Argentinas appears to have entrenched a process of secretive and questionable negotiating practices and has made virtually no effort to open itself, and its long-term plans, to public scrutiny.

### Efficiency

A second argument made in favour of privatization is that private companies are more efficient than the public sector, thereby reducing costs to the end user and freeing up resources for the state that can be used for other development needs. Once again the water concession in Buenos Aires appears to have done the opposite. Despite an impressive 27 percent reduction in water tariffs immediately after Aguas Argentinas took over water delivery in 1993, the cost of water has increased by as much 20 percent in real terms due to subsequent price hikes and surcharges. Moreover, the initial price decrease itself was somewhat misleading, with critics arguing that prices were artificially inflated by the government prior to privatization in order to make the private company look more efficient.

It should also be noted that these price increases, and the costs of service extension more generally, have been borne disproportionately by the urban poor. As a result, non-payment rates for water and sanitation are as high as 30 percent, with service cut-offs becoming increasingly common. It is generally women and children that bear the brunt of these service cut offs with very real health and safety consequences.

Another concern is that sewerage infrastructure development has not kept pace with water delivery expansion (due in part to the fact that water delivery is twice as profitable for Aguas Argentinas as sewage treatment). Nor has Aguas Argentinas fulfilled its contractual obligation to build a new sewage treatment plant. As a result, over 95% of the city’s sewage continues to be dumped directly into the Rio del Plata and households with

new water services are often forced to dump their sewage into makeshift septic tanks, cesspools or directly onto streets and open fields. The groundwater equilibrium has been destabilized and basements have begun to flood, buildings and pavements have started to sink, and water borne diseases are a constant concern. Once again it is the poorest households that are most negatively affected.

The costs of this lack of sewerage investment in terms of environmental sustainability, public health and safety, and urban equity in Buenos Aires have not been fully measured but certainly bring into question the argument that the private company is more 'efficient' than the former public provider. Nor do the arguments that private companies are able to generate more capital than the public sector seem to hold in this case. The bulk of the capital used for infrastructure development and new connections in Buenos Aires water and sanitation have come from surcharges to end-users and international financial institutions – financing options that could have been available to the public sector. Meanwhile, Aguas Argentinas has been making record profits in Buenos Aires: up to twice the international average and up to three times what water companies make in the UK on average.

In the end, it would appear that the private water concession in Buenos Aires has done little that a rejuvenated public sector provider could not have done, and has in fact exacerbated some of the worst socio-economic and environmental problems of the city. Poor residents, meanwhile, have been unable to voice their concerns due to the lack of participatory mechanisms and have taken to expressing their grievances through civil disobedience (e.g. a community group from Lomas de Zamora that disrupted an Aguas Argentinas meeting to pour contaminated water from flooded areas on the tables of the company's executives).

Whether these problems are merely a question of better regulation and monitoring of the company (as World Bank analysts argue), or whether these problems are related more broadly to the introduction of profit incentives into a previously publicly-run service, are questions that South Africans should be asking themselves and debating.

## INTRODUCTION

In 1989, embarking on a dramatic reversal of his party's election platform, Argentine President Carlos Menem began a major period of privatization. This marked the beginning of the era of Menemismo economics. Nearly all publicly owned enterprises were sold or given over to the private sector to manage, including the water service of Buenos Aires, which took the form of a thirty-year concession contract in 1993. Within a year, the World Bank was proclaiming the success of the Buenos Aires water concession and it soon embarked upon a vigorous promotion of the model in other parts of the world. Alongside this, the foreign water corporations involved publicized the 'success' of their accomplishments in Buenos Aires as part of an aggressive move into water markets elsewhere in the world. Since 1994, however, the concession has proved far more problematic than the World Bank's researchers originally thought, particularly in terms of escalating costs to the public and environmental degradation.

In this paper, we offer a brief overview of the political economic context in Argentina, before looking at the process involved in the privatization of water in Buenos Aires. We then look at the outcomes of the privatization.

The research is based on secondary sources as well as a six-week period of primary research in Buenos Aires between July and August 2000. The latter consisted of semi-structured interviews with representatives from the private company, the independent regulator, the International Finance Corporation, national and local government, community groups and representatives from the main water-sector unions. Secondary sources were drawn from academic articles and government documents as well as research reports prepared by major donor agencies.

## THE LEGACY OF PERONISM

In spite of being the second largest economy in Latin America, Argentina is languishing in an economic crisis. Spanish colonialism left a profound mark, establishing firmly unequal trade relations with the rest of the world and creating a small elite prepared to work in alliance with foreign interests. In the last decade, neo-conservative economic reform and rapid privatization has greatly accentuated inequalities and has led to a deepening of Argentina's dependence on foreign capital.

In the first half of the twentieth century economists confidently predicted that Argentina would soon be second only to the US in its economic strength and stature. In marked contrast, from the 1950s on, political instability and economic stagnation have dominated Argentine history. Many lay the blame for the disaster of the last fifty years on the policies of Juan Domingo Peron, Argentina's president between 1946 and 1955 and for one shorter period between 1973 and 1974.

Peron attracted mass support in the country through a curious blend of socially reformist policies and balancing what appeared to be both leftist social change and conservative defense of elite interests. Essentially, he was a populist. Realizing that the largest constituency for him to draw upon was the working class, Peron granted some considerable concessions to the poor and growing middle class. His second wife, the glamorous Evita, who rose from the poor barrios of the city to achieve myth-like stature, further consolidated the impression that Peronism represented the true interests of the working class. Peron did strengthen union power and did, therefore, help to strengthen a force for change within the working class, but this seems more an act of political opportunism than a genuine effort to change power imbalances. David Rock (1987, 257) quotes Peron before the Buenos Aires' stock exchange in August 1944: "Businessmen: Don't be afraid of my unionism. Never has capitalism been firmer than now...What I want to do is to organize the workers through the state, so that the state shows them the way forward. In this way revolutionary currents endangering capitalist society in the postwar can be neutralized". This close association of the union movement with the state has, we would argue, been central in aiding the advance of neoliberalism in the 1990s as well.

Peron's first period in power was followed by a succession of coups and military dictatorships. Civilian rule was rare and many blamed Peron's rapid realignment of social forces for the climate of political instability. His second presidential coming was short and largely unsuccessful in improv-

ing conditions in the country and on July 1, 1974 Peron died of heart failure. After his death, his third wife Isabel ruled for a further two years before a coup resulted in a new period of dictatorship and the bloodiest period in Argentina's recent history.

During the so-called "Dirty War" between 1976 and 1983, mass "disappearances" took place, union laws were suspended, torture was common and dissent impossible. Anyone labeled a radical was in danger, as the paranoid military rulers attacked what they claimed was an underground, urban guerilla movement. For a while, mothers were bewildered by the disappearance of their sons, before having to accept the appalling reality that the military was responsible for their systematic murder.

The grip of the military began to slip in the early 1980s as the country descended further into economic and social crisis. The last of the generals, Galtieri, spearheaded a last-ditch attempt to consolidate support by invading the Malvinas (Falkland) Islands. When this ended in defeat, the period of dictatorships crumbled. In 1983, Raul Alfonsin was democratically elected as a civilian president and a period of civilian reform began. However, Argentina's troubles were by no means over. The debt crisis came to the fore and convincingly blocked any of Alfonsin's attempts to lift Argentina out of sharp economic depression in which the country seemed to be languishing. High inflation and frequent bouts of hyperinflation (reaching levels of over 4,000 percent) led to increasing disillusionment with the government's capacity to act. It began to look increasingly likely that military intervention would again be the end-result of the chaos. However, the 1989 election saw the return of Peron's Partido Justicialista, recently unbanned and under the new leadership of Carlos Menem. In an agreement with Alfonsin, Menem assumed power without the required interim period, in order to prevent the growing possibility of serious instability. He then embarked upon a rapid period of far-reaching economic reforms.

### A Shift to Neoliberalism

Menem's reforms marked a dramatic turnaround from the Justicialista's main policy platform. In a cruel twist, the party most closely allied with labour was the one that would carry through the harshest reforms. Citing the devastating effects of hyperinflation, Menem declared a "state of economic emergency" and was thereafter able to make many decisions by decree. In response, the union movement went through a bewildering period of transformation and fragmentation. Three main factions have since



emerged. The first, the conservative Confederacion General del Trabajo (CGT), identifies the most closely with Peronist interests and believes the unions to be best served by the Justicialistas in spite of their neoliberal stance. The second is a dissident faction of the CGT, the Movimiento de Trabajadores Argentinos (MTA). The MTA have achieved some considerable success in radicalizing the labour movement around the issue of neoliberal restructuring but have tried to do this within a more unified workers' movement. In many ways this has meant that they remain more closely associated with traditional Peronism than the other breakaway movement, and third main labour faction, the Central de los Trabajadores Argentinos (CTA)<sup>1</sup>. Whereas both the CGT and the MTA are umbrella groups the CTA is primarily composed of dissident unions, the unemployed and individual members.

Factions aside, this corporatist framework of the past seems largely to have been dismantled during the period of Menem's reforms. Labour leaders were still consulted, but it seems to have been little more than a means of guaranteeing their co-optation. As Manzetti (1999, 81) writes, "in what constituted a watershed in Argentine history, Menem turned the traditional confrontation between Peronism and big domestic capital into an alliance for profit". Labour leaders joined this emerging alliance and, as unemployment rose to a steady 15 percent in the latter half of the 1990s, the labour movement found new ways to survive, in many cases turning its attention more to raising revenues in private financial markets rather than challenging the government's economic reform agenda.

One such revenue-generating opportunity is directly linked to privatization in the form of the Programa de Propiedad Participada (PPP) which offers employees a 10-percent share in the newly privatized industries; shares which are administered by the unions. Murillo (1998, 81) writes that: "The privatization of state-owned enterprises had two consequences for unions. On the one hand, union dues and welfare funds dropped with decreased numbers of members. On the other hand, privatization increased the opportunities to generate union resources because it introduced a system of employee ownership administered by unions, and opened the possibility for unions to purchase stocks in privatized firms in their industries". Overall, this process of reform has led to a much smaller workforce and radically different priorities for the labour movement.

After Menem's successor failed to win the 1999 presidential elections for the Peronists, losing to the centre Left Alliance party's candidate Fernando de la Rúa, labour militancy has increased once more. This time

protests have been focused on the international financial institutions, especially the World Bank and the IMF. Sometimes, as with Peron, this has played on a sense of economic nationalism rather than proposing a radical challenge to global capitalism, but the MTA has begun calling for a complete non-payment of the foreign debt. The CTA has also participated in these calls and has contributed to the rejuvenation of a radical intellectual critique of the so-called "Washington consensus". In November of 2000, the main dissident labour groups mobilized road blocks and yet another national strike in order to oppose the latest round of IMF imposed austerity measures. The current political and economic climate in Argentina remains tense.

The official level of unemployment in the country lies at 15 percent, but if one includes rural labourers who are not covered by the social security system, the urban informal sector, and those who have given up looking for work altogether, the figure jumps to over 40 percent (Cieza 1998, 23). The official figure has not dipped below 13 percent since 1995 when Menem's reforms began to take effect and, in 1999, the economy contracted by 3.2 percent. The figures predicted by *The Economist* for growth in 2000 languish at 1.5 percent (Anon. 2000a). The current president, Fernando de la Rúa, has struggled to attain the fiscal surplus demanded by international creditors through the cutting of public spending and through increasing taxation but the economy has not revived. Meanwhile the costs of services under newly privatized entities has increased significantly, along with growing accusations of corruption. There appears to be a general loss of confidence in the government's ability to solve the country's problems.

## THE PROCESS OF PRIVATIZING WATER

In August 1989, the Menem administration rushed through the National Administrative Reform Law (No. 23, 696), declaring a state of economic emergency with regard to the provision of public services. The law authorized the "partial or total privatization or liquidation of companies, corporations, establishments or productive properties totally or partially owned by the State, including as a prior requirement that they should have been declared subject to privatization by the Executive Branch, approval for which should in all cases be provided by a Congressional Law" (Ministerio de Economía y Obras y Servicios Públicos 1993, 4). Through such a decree, Menem was able to privatize the Buenos Aires water and sewerage network, Obras Sanitarias de la Nación (OSN) without



public consultation, arguing that it was “urgent” to press on with reforms. Further Presidential decrees 2074/90, 1443/91, and 2408/91 stated that the privatization would take the form of a “concession”.

The program of economic restructuring was spearheaded by Finance Minister Domingo Cavallo who argued that privatization had become a necessary measure to counter hyper-inflation that had reached 4,923.6 percent in 1989 – “a statistical record which has scarred the national consciousness” (Ministerio de Economía y Obras y Servicios Públicos 1993, 3). According to *Prensa Económica* (Anon. 1991: 35) “for Minister Cavallo, carrying out the privatization of government-run corporations in record time is a must, since the main pillar of his convertibility is a fiscal surplus and therefore rests on the inflow of funds arising from the privatizations”.

By 1993, the World Bank and the Inter-American Development Bank (IDB) had been involved in the Argentine water sector for several years, the IDB having lent US\$90 million to OSN in 1989. Once the government announced its law of administrative reform, the World Bank funded and appointed a team of private-sector technical and financial consultants from the UK to advise on the future of Buenos Aires’ water sector. The World Bank was also responsible for recommending and short-listing companies after the submission of bids. At this stage, a privatization committee was formed, comprising representatives of the Ministry for the Economy and Public Works, the Privatization Board, SGBATOS<sup>2</sup> (the main water-sector union) and OSN.

Once the decision to privatize had been made there was no discussion of alternatives. Alternatives *within* the private sector were discussed but these were restricted to questions of whether or not to divide the concession area into competing concessions (a recommendation of the World Bank’s) or whether to divide the network vertically into different services. The privatization committee was essentially established to discuss *how* to privatize. Virtually no information was provided to the public, as the committee relied on the press publicizing the issues and taking an interest. Public input was non-existent until a public hearing took place in June 2000, seven years after the contract had been signed and two years after the second five-year plan was to have commenced.

### Co-opting Labour

Labour had provided one of the key sources of opposition to initial attempts at privatization in the mid- to late-1980s. Thirteen general strikes

had been called in order to block the progress of such reforms. However, Menem and Cavallo recognized the levels of support that their party still had amongst workers. This meant that union leaders had to be guaranteed a seat in the privatization discussions. In order to ensure continued support up to and following privatization, the law of administrative reform offered employees a 10-percent share in the privatized companies through the Programa de Propiedad Participada (PPP).

The key to understanding the union’s co-optation lies in the PPP. As Artana, Navajas and Urbiztondo (1999, 211) argue in an article for the IDB and neoliberal think-tank FIEL<sup>3</sup>: “Allocating 10 percent of shares to workers through the Program for Shared Ownership was intended to ‘buy’ the consent of former OSN workers for the concession and has been a common practice in other privatizations undertaken by the federal government”. They refer to the model as one of “Popular Capitalism” and recognize that it has been an effective, if expensive, means of wearing down union opposition.

Although enshrined in law, many workers and union leaders felt intense pressure to co-operate in the PPP in order to guarantee their 10-percent share. In interviews with the authors in 2000, representatives from SGBATOS spoke of how their support for the process had not only guaranteed that they received shares but also that they received payments sooner than in sectors opposing privatization. The strategy of co-optation seemed to work and SGBATOS leaders shifted from denouncing earlier privatizations of public services to offering their full-fledged support, a process which resulted in a halving of their membership through job losses.

Notably, union leaders had veto rights in the privatization process, but this power was *never* used. All decisions were made by consensus, including the loss of 3,600 workers. Because of links with the Peronists in power, many of the union leaders at the time were also part of the political elite. As one interviewee commented, “There is a large difference between union leaders and union members. Leaders are part of the political elite. They represent the same interests as those in the various ministries. Everyone who participated in the privatization process was part of an intimate group of friends of the president”. Carlos Ben, for example, one of the directors of the company that now manages the water concession, is a former union leader. Similarly, the head of the regulator overseeing the concession is a former director of OSN and is expected to ‘police’ his former colleagues in this role. The distinction between the union, the company directorate and the regulator is often hazy and sometimes non-

existent. Certainly, the collusion of these interests in the process meant that the privatization of the Buenos Aires sewerage and water network was easier to hurry through and destined to benefit and strengthen elite groups.

### “There Is No Alternative”

Interviews with key decision-makers also suggested that there was a general sense amongst union leaders that privatization was inevitable and that fighting against it was futile. Crucial to this thinking in Argentina was the hyper-inflationary crisis which essentially disciplined the population into accepting privatization as a solution. The Ministry for the Economy and Public Works states in a 1993 document that “the key to these changes [privatization] was the realization that the economic model that Argentina followed for decades was exhausted. The hyper-inflationary crisis was *useful* to make clear that it was impossible to achieve growth and stability on the basis of a regulated economy closed to the outside world, with a deficit-ridden public sector operating in many inappropriate areas” (1993, 3 emphasis added).

The water sector was, however, not deficit ridden (it actually produced a surplus in 1992) and would be considered by many to be an appropriate, even vital, area in which the public sector should be involved. This is not to say that Argentina’s 1980s economic model was ‘succeeding’ or that OSN was doing a satisfactory job. OSN was suffering from serious under-investment: unaccounted-for-water (leakage) had reached levels between 40 and 50 percent; water shortages in the summer months occurred frequently; and serious pollution resulted from too few sewerage connections and inadequate sewage treatment. Crucially, 30 percent of the population living in Gran Buenos Aires had no access to the water network. The service was clearly ripe for major reform. However, such reform was not considered outside of the private sector. It seemed there was to be no alternative to privatization. Several interviewees even suggested that in the few years prior to privatization the water and sanitation situation was intentionally worsened to highlight the ‘inadequacy’ of publicly owned services. It is certainly true that the government increased prices in 1991 and 1992 in order to smooth the way for public acceptance of privatization, something that we deal with in more detail later in the paper. Again, TINA thinking (“there is no alternative”) was encouraged through the argument at the time that publicly owned companies unnecessarily overcharged because of bureaucratic inefficiencies.

### The Bidding Process and Awarding the Contract

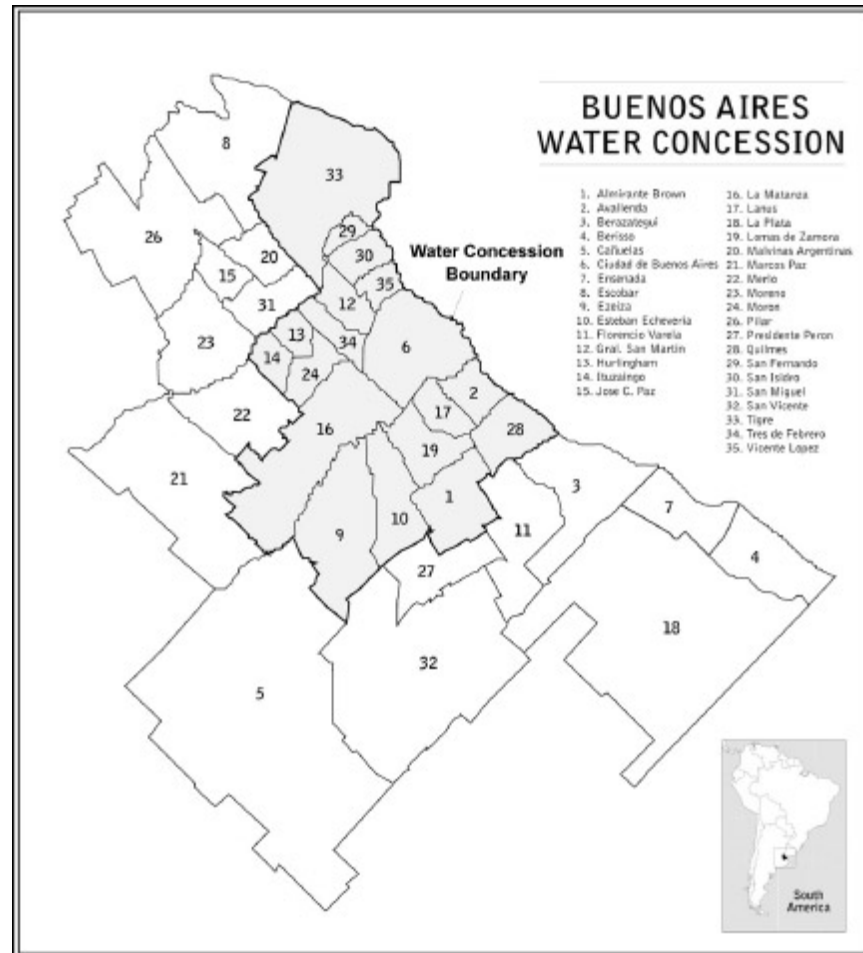
Once bids were called for the concession and information disseminated amongst likely bidders, pre-qualification criteria were stipulated. After this process, five companies emerged, though this was soon reduced to four as the two main French companies decided to submit a joint proposal. The bidding process consisted of two stages. The first stage required the evaluation of a company’s technical proposals. The second stage involved an evaluation of their financial proposals. One company failed to qualify. Three bidders therefore moved into the second stage, the financial bid, which was assessed on who could offer the largest tariff reductions. Aguas Argentinas offered a 26.9 percent tariff reduction; the runner-up a 26.1 percent reduction. The third bidder’s offer was considerably less at 11.5 percent.

On May 1, 1993, Aguas Argentinas signed a contract allowing it to run the Buenos Aires sewerage and water network for the next thirty years. The present capital stock breakdown of the company is shown in Table 1:

Table 1: Capital Stock Breakdown of Aguas Argentinas<sup>4</sup>

| Investor                            | Percentage of stock ownership |
|-------------------------------------|-------------------------------|
| Suez Lyonnaise des Eaux             | 34.73 %                       |
| Aguas de Barcelona                  | 25.01 %                       |
| Employee stock ownership plan (PPP) | 10.0 %                        |
| Banco de Galicia                    | 8.26 %                        |
| Vivendi                             | 7.55 %                        |
| Aguas Inversora                     | 5.2 %                         |
| International Finance Corporation   | 5.0 %                         |
| Anglian Water                       | 4.25 %                        |

Source: Aguas Argentinas 2000



The area served by Aguas Argentinas consists of the Federal Capital area of Buenos Aires in the downtown core and 17 surrounding municipalities (please refer to accompanying map). Originally only 14 municipalities were served but expansion has since taken place through the inclusion of the municipality of Quilmes and the creation of three municipalities within Moron (formerly only one municipality). (See Table 2 for a breakdown of coverage and performance levels at the start of the concession.) Water is purified in the San Martín and the General Belgrano plants, the former being considerably bigger and among the largest of its kind in the world. Sewage is currently treated in two separate plants in the southwest and the north of the city. There are significant disparities between the levels of coverage in different areas of the city. In general, the south of the city has much lower rates of both water and sewerage coverage.

Table 2: Coverage and Performance Levels at the Start of the Concession

| Water System                               |                        |
|--|------------------------|
| Number of Connections                      | 1,170,000              |
| Average Production (m <sup>3</sup> /month) | 108,950,000            |
| Treatment Capacity (m <sup>3</sup> /day)   | 3,640,000              |
| Length of Water Pipe System (kms.)         | 11,000                 |
| Total Population                           | 8,580,000 <sup>5</sup> |
| Served Population                          | 6,000,000              |
| Sewerage System                            |                        |
| Number of Connections                      | 700,000                |
| Served Population                          | 4,700,000 <sup>6</sup> |
| Volume Collected (m <sup>3</sup> /month)   | 82,232,000             |
| Volume Treated (m <sup>3</sup> /month)     | 3,413,000              |

Sources: Jasperson (1997), Concession Contract, Aguas Argentinas (2000)

Of the 2,580,000 (30 percent of the population) not connected to the water network in 1993, 95 percent obtained water from individual wells with pumped or manual motors (Abdala 1996). For those not connected to the sewerage network, 88 percent disposed of sewage through septic tanks and cesspools and the remainder disposed of it directly into rivers, streams or the ground. This latter activity, in conjunction with poor quality cesspools and industrial pollution, has led to serious pollution of shallow groundwater aquifers from which those not connected to the water network obtain their drinking water. Environmental health risks in poorer areas of the city have worsened.

### The Regulatory Agency (ETOSS)

Crucial to the implementation of the concession was the development of

an independent regulatory agency, Ente Tripartito de Obras y Servicios Sanitarios (ETOSS). ETOSS was established to monitor the quality of service, represent consumers, and ensure the implementation of the contractual agreements. Members of its board of directors are appointed from the municipal level (appointed by the mayor of Buenos Aires), from the provincial level (appointed by the governor of the province), and also from the national level (appointed by the president). ETOSS' annual budget of US\$8million is drawn almost entirely from a universal 2.7 percent surcharge on water bills. There are approximately 110 people working for ETOSS (up from what was originally around 70), most of whom are former OSN employees.

The regulator has been criticized on many fronts and from many different perspectives. Some feel that it has been co-opted by the private sector. It became clear from interviews that many had strong suspicions that some personnel may have even been bribed into overlooking certain aspects of the company's failure to meet contractual obligations. In contrast, those interviewed from Aguas Argentinas felt that ETOSS had been unnecessarily tough on the company's operations. The regulator was viewed as more of an obstacle to service delivery than a crucial part of a good water system. One representative from Aguas Argentinas commented that the company's "harsh treatment" was based on personal jealousies arising from colleagues "left behind" at the regulator after privatization.

Researchers for the World Bank have criticized ETOSS for being too "political" (Alcazar *et al.* 2000). This criticism stems from the fact that decisions are frequently delayed by ETOSS, as a consensus must be reached amongst the competing interests of the six member board. These decisions regularly go beyond deadlines and there is frequently difficulty finding agreement even between two representatives from the same level of government. More alarming, however, is the lack of respect the government has had for ETOSS. As will be shown later in the paper, decisions made by the regulator that appear to threaten the dominance of private capital are frequently overridden by the state, to the extent that government rewrote the contract in 1997 considerably softening many of Aguas Argentinas' contractual commitments. Significantly, ETOSS was not a part of this renegotiation.

## OUTCOMES OF THE PRIVATIZATION

To assess the outcomes of the concession it is necessary to look first at the performance targets stipulated in the original concession contract. In assessing the outcomes, it should be noted that considerable confusion surrounds these original targets. Different sources produce drastically different numbers. To a large extent we have relied on the company's figures as these are the most up-to-date. However, some biases are evident in these figures and where this is clearly the case we specify so. Confusion also prevails in that the company's first "five-year period" was extended to the year 2000 (a seven-year period in which to fulfill some of the criteria). This extension was granted partly because of the renegotiation of the contract in 1997 and partly because of difficulties in agreeing on regulatory measures. The second five-year plan was still being negotiated at the time of writing.

### Network Expansion

Since signing the contract, Aguas Argentinas claims to have increased the number of clients receiving water by 1,500,000. This figure includes the expansion of the concession area to the municipality of Quilmes in 1995 and, therefore, the addition of 650,000 new users, many of whom were *already* connected to the water and sewerage networks (see Table 2 for the population covered in 1993). A better measure is the percentage of the total population covered by the network. As Table 3 demonstrates, water coverage at the start of the concession was 70 percent and sewerage coverage 58 percent.<sup>7</sup> By 1999, Aguas Argentinas claims that water coverage had reached 82.4 percent and sewerage coverage 61 percent (Aguas Argentinas 2000).

These are significant increases and the figures for water coverage meet the performance targets of 81 percent for the first five-year period. Sewerage coverage, however, has not increased at the same rate and the figures for this fail to reach the 64 percent specified in the contract. Most importantly, the level of sewage treatment has barely increased in the first seven years of operation. According to interviewees, the level of primary and secondary sewage treatment is still hovering at about five percent. In other words, although the network of sewerage has expanded, very little of the sewage that is being collected is being treated. Most of it is simply being dumped raw into the Rio del Plata via a 2.5-km-long outlet pipe. The environmental implications of this neglect are serious and are taken up later in the paper. What is important to note here is the complete failure of



Aguas Argentinas to meet its sewage treatment targets, which should have been at 64 percent for primary treatment and seven percent for secondary treatment by the end of the first five-year period.

**Table 3. Aguas Argentinas' Five Yearly Performance Targets**

| Year of Concession | Percent of Population Served by Water | Percent of Population Served by Sewerage | Percent of Collected Sewage that is Treated <sup>a</sup> |                     | Network Renovation (Cumulative)% |        | Percent of Unaccounted-for Water |
|--------------------|---------------------------------------|--|--|---------------------|----------------------------------|--------|----------------------------------|
|                    |                                       |  | Primary Treatment  | Secondary Treatment | Water                            | Sewage |                                  |
| 0                  | 70                                    | 58                                       | 4  | 4                   | 0                                | 0      | 45                               |
| 5                  | 81                                    | 64                                       | 64   | 7                   | 9                                | 2      | 37                               |
| 10                 | 90                                    | 73                                       | 73   | 14                  | 12                               | 3      | 34                               |
| 20                 | 97                                    | 82                                       | 82   | 88                  | 28                               | 4      | 28                               |
| 30                 | 100                                   | 90                                       | 90   | 93                  | 45                               | 5      | 25                               |

Source: Concession Contract, Idelovitch and Ringskog (1995, 39)

The expansion of water coverage through new investments has been more successful and has received considerable acclaim from lending agencies. Alcazar *et al.* (2000, 42), for example, argue that the company's investment record has been "impressive". They admit that investment has *not* met the levels committed to, but that "as a result of this investment new [water] connections increased by 11 percent over the five years and coverage increased from 70 percent of customers in the service area in 1992 to 83 percent by 1997".<sup>9</sup> In regard to the actual size of the network, Aguas Argentinas has expanded water pipelines by 1,700 km and the sewerage network by 300 km (Aguas Argentinas 2000). Much of the old network has also been rehabilitated and cleaned. Water production has also increased through initiating some fairly basic repairs at the San Martin water treatment plant.

These improvements are impressive, but had adequate funding been made available to the public sector in the early 1990s there is no reason to believe that similar reforms could not have been made by the OSN. Moreover, most of the new investments by Aguas Argentinas have come

via loans from the IFC and new surcharges to consumers, finance vehicles which could have been equally accessible to a publicly owned water entity.

### Cost of Water

The most frequently cited benefit of water privatization in Buenos Aires is the reduction in price to end users, demonstrated by the 26.9 percent tariff reduction implemented at the very beginning of the concession. Supporters also point to the terms of the initial contract which stipulate that prices should only be *reduced* in the first ten-year period. It would seem, therefore, that the privatization process has guaranteed access to cheaper water in Buenos Aires.

On closer examination, however, this is not the case. In fact, the current president of Argentina, Fernando de la Rúa, speaking in March 1999 when he was mayor of Buenos Aires, stated that, "Water rates, which Aguas Argentinas said would be reduced by 27 percent have actually risen a total of 20 percent" (Anon. 2000b). The following paragraphs attempt to unpack the confusion.

In February 1991, after OSN had been earmarked for privatization, a 25-percent tariff increase was announced. This increase, it was said, was to compensate for inflation, as was the 29 percent increase in April of the same year. In April 1992, a goods and services tax was then added to water bills. Initially this was set at 18 percent, later increasing to 21 percent in April 1995. A further eight-percent increase was granted a few months prior to privatization (Ferro 2000, 10). The effect of these increases was to allow the company to offer what *seemed* to the public to be a 27-percent decrease in costs, even though *in reality* it was a manufactured reduction. As consultants to the IDB state, this was a useful strategy for stemming possible opposition to the privatization process (Wenyon and Jenne 1999, 198).

A similar strategy is reported on, and recommended to other governments, by Mark Dumol, a Filipino government official, in a World Bank publication on the Manila water concession. Dumol (2000, 42) writes, in a chapter entitled "Need to have bids lower than the existing water tariff", that "In August 1996, about five months before the bid submission, the water tariffs were increased by about 38 percent. This tariff increase was actually long overdue and would have been implemented regardless of privatization....Nevertheless, it gave us a substantially greater chance that the bids would be lower". Dumol also states that the importance of this

price hike prior to privatization was learned from the Buenos Aires water concession.

It is useful to note here as well that the Argentine government acted in the same manner with the privatization of the state telephone company, ENTEL. In this instance Maria Julia Alsogaray, the trustee for ENTEL, attempted to raise tariffs by 2,300 percent in the first quarter of 1990 and guaranteed bidders a net profit margin of 16 percent for the first two years after privatization (Manzetti 1999, 109). Though Alsogaray was overruled in this case, a 700-percent increase in charges was still permitted prior to the privatization of ENTEL (Azpiazu 1999, 366).

Since the 1993 'cost reduction' in water, the cost for services was increased in both 1994 and 1998. Additional charges were added in both cases and the renegotiation of the contract in 1997 allowed for a significant revenue generator for the company in the form of a universal surcharge, the SUMA (Servicio Universal y Medio Ambiente, meaning "universal coverage and the environment").

Why these price increases were permitted by the regulator is unclear. According to the original contract, prices may be adjusted according to a mix of "price cap" and "cost plus" pricing regulation with prices subject to adjustment every five years, in line with the company's investment plans. Prices can therefore go up or down, except in the first five-year period, in which they were already fixed as well as in the second five-year period, in which the contract stated that prices can only go down. This means that in the first ten years no increases should be permitted by the price-cap system.

Between these five-year periods, however, prices can be adjusted according to the company's composite cost index. If costs for the company rise above seven percent then it can file for an increase. The index itself is based on ten cost categories such as fuel, chemicals, electricity, labour, debt service and so on, and the relative value of each of these is assigned a weight according to each of the five-year plans (Alcazar *et al.* 2000, 28-29).

These contractual agreements would imply that the price increases from 1993 to 1999 must have been the result of an increase in the company's cost index. This is not the case, however, for the 1994 increase. The 1994 increase was granted because of what the company argued to be *extra*-contractual demands: ensuring immediate service provision in very poor neighborhoods and accelerating the expansion schedule for one of the municipalities. The company argued that the new demands by government would increase their costs by 15 percent, leading to a 13.5-percent

increase being charged for consumption, disconnection and reconnection, and a 42-percent increase in the infrastructure surcharge.

That ETOSS should grant this increase is confusing in several respects. First, it was awarded on the basis of what the extension would cost Aguas Argentinas on a once-off basis. Presumably the work would be finished in, at most, a few years time, but the tariff increase would still hold, providing the company with additional revenues long after the work was complete. Second, by granting Aguas Argentinas guaranteed revenues, the government has, in effect, nullified the *raison d'être* of privatization by killing any entrepreneurial incentive for the company to finance its own extension work to create new customers. In fact, the incentive for the company now is to bank the tariff increases and earn interest while delaying the cost of extensions for as long as possible. As Rivera (1995, 52) notes, "it has been estimated that its savings in costs from delaying the Berazategui wastewater treatment plant are about \$100,000 per day". Finally, as Artana *et al.* (1998, 21) state, the Buenos Aires concession was considered to be the most profitable water concession in the world, with rates of return approaching 40 percent. To demand a price increase and surcharge under these highly profitable conditions is problematic at best. What was really required was tighter regulation on the part of ETOSS to ensure that necessary re-investments were made.

Most significant of all, perhaps, is that these price increases in the first five years set a dangerous precedent. They implied that the contract was negotiable and that the company could push for tariff increases whenever it wished to, particularly if they could show that new demands were *extra*-contractual and had to be paid for by the consumer. As a result, the tariff increase also had the effect of shifting the cost of expansion from the private sector to end users.

### The Crisis of the "Infrastructure Charge" and the Introduction of the SUMA

The introduction of an Infrastructure Charge at the start of the concession has also proven to be highly problematic. Originally intended to finance the company's expansion plans, this surcharge was specifically directed at those newly connected to the network, the argument being that these consumers were the ones directly benefiting from the expansion. The charge frequently affected those least able to pay, however, as these households were more likely to not have had a previous water or sewerage connection.



The Infrastructure Charge ranged from US\$43 to US\$340 for water (depending on the total property area and taking into account the type of soil and level of repair needed to streets and sidewalks) and a flat charge of US\$572 for sewerage. In addition to this, a connection fee was also charged. Water services cost an additional US\$6 every two months, plus tax. Not surprisingly, many households were simply unable to pay such costs.<sup>10</sup> Pirez (1998, 2000), quoting figures from *Ambito Financiero*, writes that: “Already facing constraints to its survival, the population has become increasingly skeptical about its continued access to services. Information in the media suggests that some users are abandoning essential privatized utilities such as water; it is estimated that 30 percent of the population which was incorporated following the recent expansion of the network has stopped paying”.

Aguas Argentinas’ inability to collect these fees from the poor quickly led them to call for a renegotiation of the contract. The company argued that revenues after three years of the concession were US\$217 million lower than expected, in large part because of the non-payment of the Infrastructure Charge. They also demanded that the regulator, ETOSS, suspend some of the fines for its failure to meet the 1994 accelerated investment targets.

It must be remembered at this point that Aguas Argentinas was reaping large profits from the concession. A report from the Universidad Argentina de la Empresa stated that profits in 1995 were 28.9 percent of revenues, in 1996 they still reached 25.4 percent and in 1997 they were 21.4 percent. This compares with average profit rates in the water sector in England and Wales (often cited as *the* model of privatization), which averaged 9.3 percent in 1999-2000 and 9.6 percent in the year preceeding (OFWAT 2000).<sup>11</sup> Yet Aguas Argentinas still argued it to be necessary for its contractual obligations to be *weakened* and for new tariffs to be introduced in order to increase revenues. In this instance, the government assumed responsibility for the negotiations and a team of engineers was appointed around the Minister for Natural Resources and Human Development, Maria Julia Alsogaray. Alsogaray’s appointment was justified by the government by claiming that it wanted to use the renegotiations to address environmental concerns, including measures to reduce contamination of the Matanza and Riachuelo rivers (Alcazar *et al.* 2000, 37). However, the team of engineers assigned to the project lacked experience and the close knowledge of the concession that ETOSS had developed over the previous four years (and before that working within OSN). The government was

therefore seen to be directly snubbing the independent regulator, and the consequences proved serious.

A new agreement was eventually reached in 1998 with the introduction of a universal surcharge, the aforementioned SUMA. This US\$3 surcharge (paid bi-monthly) is divided into two parts with US\$1 going to environmental clean-up and US\$2 going to extending services to new users. Though allowing for cross-subsidization, the SUMA came as a shock to many consumers, being regarded as the equivalent of a water ‘poll tax’. This led to the *Defensor del Pueblo* (ombudsman) for Buenos Aires challenging the charge in court. At first, the court conceded that the introduction of this surcharge was illegal but Minister Alsogaray appealed and the charge stayed in effect. Since the introduction of the SUMA, expansion of the network has continued, albeit at a much slower pace, and the environmental clean-up is scheduled to take place in the company’s integral sanitation plan (PSI).

The introduction of the SUMA raises some other troubling questions. In his submission to the public hearing on the concession in June, 2000, Americo García, Jr. (son of the late Senador García and a member of the Senate’s administrative staff) pointed to some inconsistencies in the SUMA and the expansion plans presented by the company. Within five years, the SU element of the SUMA (i.e., the universal coverage) will raise US\$312.8 million. A further charge on members of the public to be incorporated into the sewerage network (the CIF) will bring the total up to US\$340.4 million. The company’s investment plans, however, are only in the order of US\$450 million, meaning that the company is only going to invest US\$100 million of its own money over the five-year period. (This, incidentally, is a level of investment that OSN, the original public sector water provider, could easily have managed.) With regards to the MA element of the SUMA (i.e., the environmental component of the surcharge), an additional US\$156.4 million will be raised over the five-year period. However, the company’s investment plans in the PSI (its key environmental plan) were only US\$142.2 million.<sup>12</sup>

García also highlighted in his submission further charges introduced by Aguas Argentinas, in particular the OPCT which is paid by residents wishing to accelerate their connection to the network. Residents are given the option to pay for works to be done sooner than they would ordinarily. In many instances, García claims, connections are delayed until the OPCT is paid, making it a “subversive” infrastructure charge.

Another fundamental difference in the government’s re-drawing of the

contract is that Aguas Argentinas is permitted to charge *prior* to conducting extensions to the network, thereby further reducing the company's exposure to financial risk as well as reducing the regulator's leverage to ensure that work is carried out. This pre-payment system has now become an incentive for the company to delay investments as long as possible.

Two other changes to the contract are also important to mention here. The first is a shift from a price-cap system of tariff increases to what Alcazar *et al.* (2000, 40) describe as "rate of return regulation" in that "the new rules require the regulator to evaluate the impact of regulatory changes on the company's level of indebtedness". The second change is a clause which offers Aguas Argentinas protection of revenues in the event of a devaluation of the peso. Though illegal under the country's convertibility laws, this clause means that devaluation could result in crippling water bills for the vast majority of those living in Buenos Aires

This renegotiation proved decisively that the government was not prepared to fine the company for its failure to meet targets. Moreover, it showed the alarming lack of respect the government had for the original contract. The consequences of this renegotiation immediately played themselves out when, in 1998, emboldened by its previous ability to garner tariff increases, Aguas Argentinas called for a further 11.7-percent increase, something it claimed to be a "cost pass through". The directors of ETOSS representing the Mayor of Buenos Aires fiercely opposed this increase, arguing that Aguas Argentinas' figures were fictitious. ETOSS finally agreed to a 1.6-percent increase but the national government intervened once again and ordered a 4.6-percent increase in tariffs. The regulator was left humiliated. A further tariff increase of 15 percent over the period 2001-2003 was also granted by the government at the end of 2000. This was said to reflect the announcement of new investment levels of US\$1,006 million for the second five-year period.

### Corruption

Many of the people interviewed for this research suggested that attempts to buy the support of both the regulator and the government were not uncommon. The fact that the minister in charge of the 1997 tariff renegotiation, Maria Julia Alsogaray, has been tried for accepting multi-million dollar bribes in the privatization of the Buenos Aires port system only raises suspicions further. Several interviewees suggested that the cost of the 1997 renegotiation was in the multi-million dollar range. Others stated that the support of local councilors had been bought with free trips to World Cup

football matches in France in 1998. Though no concrete evidence was provided to this effect, there would appear to be growing concern around the issue of corruption. And, as Alsogaray's name becomes increasingly tarnished with other scandals, several interviewees stated that it is only a matter of time before the anti-corruption office links her to improper dealings with Aguas Argentinas.

Corruption charges also haunt most of the world's top ten water corporations, with Suez Lyonnaise des Eaux, Vivendi and their subsidiaries being amongst the worst offenders (both of them and their subsidiaries being involved in Buenos Aires). Vivendi, for example has faced no less than six separate corruption cases. Suez Lyonnaise and one of its subsidiaries have been charged with tampering with water pricing in Indonesia, illegally introducing "entrance fees in St. Etienne in France, and having paid the Mayor of Grenoble up to US\$6 million in 'gifts' during a period in which the town's water bills went through a three-fold increase" (Council of Canadians 2000). Sue Hawley (2000, 1) writes that, "If corruption is growing throughout the world it is largely a result of the rapid privatization (and associated practices of contracting out and concessions) of public enterprises worldwide. This process has been pushed by Western creditors and governments and carried out in such a way as to allow multinational companies to operate with increased impunity". Many of those interviewed felt this to be the case in Buenos Aires.

### Environmental Effects

In spite of arguments from the World Bank and the IFC that privatization would ensure the necessary investments for environmental clean-up operations (see, for example, Idelovitch and Ringskog 1994, Rivera 1996 and Jaspersen 1997), very little has been invested in this critical area. In field interviews, the environmental situation in Buenos Aires was continually cited as the area most ignored by Aguas Argentinas. One of the main concerns is the lack of sewage treatment. As noted earlier, at the start of the concession, only four percent of collected sewage was going through primary and secondary treatment and this has barely increased to five percent. Perhaps even more worrying is that only 58 percent of the population of Buenos Aires was connected to the sewerage network at the start of the concession and this too has only increased nominally to 61 percent. Uncollected sewage is being disposed of in septic tanks, cesspools or directly into rivers and streams. As a result, surface water supplies (especially the Matanza and Riachuelo rivers) are seriously contaminated,

posing a substantial health risk.

As outlined in Table 3, an ambitious plan was set out in the original contract for the expansion of the sewerage network and for rapid increases in primary and secondary treatment of sewage. Since signing the contract, however, Aguas Argentinas has failed to provide concrete plans for sewage treatment investments and has failed to meet any of its first five-year targets for sewerage network expansion. One interviewee described how the company had provided the regulator with four revisions of its environmental plans (in the form of the PSI) within the space of one month. This, he said, meant that they had become “a moving target”, virtually impossible for ETOSS to regulate.

One of the starkest examples of Aguas Argentinas’ environmental mismanagement lies in the problem of the “*napas*”. This refers to the problem of a rising water table which has had some serious consequences for low-lying areas since the start of the concession. A report prepared for the public hearing on the concession in June 2000 cites three primary causes of the problem: the influence of hydrological cycles; human settlement in low-lying areas; and the transfer of water from the Rio del Plata to the aquifers on which Buenos Aires sits. This final point is linked to the rapid expansion of the water network with the concomitant neglect of the sewerage network (Saltiel 2000). Uncollected waste water is draining into overflowing aquifers, instead of being carried for treatment or at least for dumping in the Rio del Plata.

In the past, OSN committed itself to extend the sewerage network at the same rate as it extended the water network. Now the two services are no longer linked by Aguas Argentinas, a point dramatically shown in the figures for extensions to the water network (1700 km since 1993) in comparison to the figures for extensions to the sewerage network (300 km). The company’s argument for this has been the urgency to extend the water network to areas where people are still drinking from nitrate-contaminated waters (an ironic response, given that the reason for these nitrate-polluted waters is the lack of sewage treatment). A more truthful reason for extending water and not sewage may lie in the different costs for the two services. It is roughly twice as expensive to remove and treat sewage from a household than it is to bring treated water to a household. Meanwhile, the tariff for sewerage services (not connection costs) is the same as it is for water. Aguas Argentinas have pursued the more profitable route by connecting more people to the water network than the sewerage network.

One municipal councilor who spoke out at the public hearing in June 2000, and who is responsible for infrastructure works in his municipality, complained that 50 percent of the work his department does is caused by these high (and rising) water tables. This, he said, was the responsibility of Aguas Argentinas and a sign of its “disregard for the true needs of the municipalities”. In fact, this subject ignited some of the most heated and angry exchanges at the public hearing. It has also become a point around which many consumer groups are rallying, in spite of the company’s denial of responsibility (Picolini 2000). Community groups from Lomas de Zamora, for example, disrupted one of Aguas Argentinas’ meetings in order to pour contaminated water from flooded areas on the tables of the company’s executives.

In addition to the sewerage extension problem, the present sewerage network is incapable of dealing with its own levels of sewage. Tide-controlled sewage outlets (*espiches*) are still being phased out even though this was demanded several years ago. An expansion of sewage treatment facilities is desperately needed (and again required by the contract) but the plans for this seem to change too frequently for interviewees to be able to comment on whether they will be built or not. In many of the poorer areas of the city there are serious problems with sewerage pipes backing up because of the low capacity of the present network. The poorest households have been most negatively affected by this neglect, whether it be by their homes being flooded by rising groundwater levels or through the contamination of aquifers.

### Labour

Since the concession came into operation the workforce in the water sector has been roughly halved from 7,600 employees to 4000. These layoffs were largely conducted through voluntary early retirement schemes, the first being jointly funded by the government and Aguas Argentinas, the second being paid for solely by Aguas Argentinas. The company argues, however, that 15,000 new jobs have been created around the concession on a sub-contracting basis and in other sectors. This figure has been criticized as a wildly ambitious company estimate, but it does serve to demonstrate the importance of sub-contracting, or, as Cieza (1998) puts it “the proliferation of ‘garbage contracts’”. Such jobs are non-unionized and do not have to conform to the same health and safety standards fought for by the main water-sector union. These new jobs have also been criticized for contributing to a general weakening of union organizing across Buenos Aires.

Whilst the main water-sector union, SGBATOS, is struggling to ensure the unionization of these jobs, it seems an impossible task, with many contracts lasting only between three and six months.

The actions of SGBATOS have also become somewhat problematic, acting as it was as a full supporter of the privatization process, and with the head of the union holding a key position within the privatization committee. Since privatization, the union has itself become something of a neoliberal 'success story', co-editing publications with the World Bank and visiting other countries whose water systems have been targeted for privatization in order to promote its benefits for labour.

Representatives from both SGBATOS and FENTOSS argued, in field interviews, that their role shifted in the 1990s from being antagonistic to capital to fulfilling a more "social position", in which they provide health-care plans, re-training programs and private pension plans for their members. Indeed, it would appear that both health and safety standards and other benefits for unionized workers have improved under the private company. But with official unemployment hovering at around 15 percent (and unofficial employment as high as 40 percent) the union's claim that the traditionally antagonistic relationship to capital had to be shelved in order to serve the "wider community interest" rang hollow for some of the people we interviewed who see the union as solely serving the interests of a narrow working elite.

SGBATOS has become a good example of what is termed in Argentina a *sindicato-empresa*, or union-business. Its headquarters are based in a glass-fronted, air-conditioned building in a wealthy residential area of the city. Its training facilities are impressive, a result of the union's ability to garner funds through the PPP. (During our visit, the 'training' session consisted of a six-hour audiovisual display on the legacy of Peron.) When asked if they were distinguishable from the private company anymore, the vice-secretary of SGBATOS argued that, "yes, meetings were often heated" and "doors would be slammed". Whether these differences constitute a genuine struggle for collective rights on the part of the union or merely a "lover's tiff" (as implied by some of our interviewees) is a moot point. What is clear is that the union representing workers in the water sector has been fundamentally transformed by the privatization process.

## CONCLUSIONS

To claim, as Aguas Argentinas does, that the water concession has aided in the alleviation of poverty in Buenos Aires is misleading. Although there have been some impressive gains in the extension of water infrastructure, the majority of the concession's negative impacts have been most deeply felt in the poorest sections of Buenos Aires. Many poor households have fallen into serious arrears and have been disconnected from the network, especially prior to 1998. Exact figures on the number of disconnections could not be found,<sup>13</sup> but if, according to Pirez (1998, 220), 30 percent of those newly connected had stopped paying by 1996, it is likely that disconnection rates would be approaching that figure.<sup>14</sup>

Environmentally, those living in the poorest areas of Buenos Aires have also been faced with the negative effects of rising groundwater (worsened since 1998) and the health risks associated with nitrate-contaminated aquifers. These municipalities have some of the lowest average incomes in the Greater Buenos Aires area and yet a large part of the financial burden for extending the network has fallen on these households.

The argument that privatization is the only way to generate sufficient capital for service improvements and extensions is also misleading in the case of Buenos Aires. Although capital investment has increased since privatization, the main reasons for the increases have been higher surcharges and higher debt burdens (which the former public sector company could have managed). It should also be remembered that a significant portion of these new surcharges is generating additional profit for the company.

Power relations shifted dramatically within Buenos Aires in the 1990s and the water concession was a contributing force. Elite international and national groups have gained, whilst poor groups have lost. Whereas under OSN there was a vestige of accountability, in that elected representatives had some control over appointments within the company, this seems largely to have faded after privatization. ETOSS was seen as the needed independent regulator for monitoring performance levels and ensuring that the company abides by its contractual obligations, but ETOSS has proven to be largely toothless in a process in which elite groups in government and the private company (and to some extent in the union) make their decisions amongst themselves. As one representative from ETOSS commented, "the government turns first to the private company if there is a problem, not to the regulator". The role of the independent regulator would appear to be



virtually meaningless.

Aguas Argentinas has been able to capture both the state and labour, thereby anaesthetizing the main bodies that might have acted to keep its activities in check. Even the June 2000 public hearing appears to have had limited impact, with concessions that were won at that meeting being effectively nullified by new tariff increases. A telling example of the lack of respect for the public hearing is the disinterested response of the International Finance Corporation's representative in Buenos Aires when asked about the meeting in July 2000. Not only was she unaware of the event but seemed to care little about its outcome despite the fact that the IFC has supported the concession with over US\$500 million in loans.

Even in the eyes of many of its proponents, the sustainability of the Buenos Aires concession seems far from certain. Alcazar *et al.* (2000, 2), writing for the World Bank, state that "information asymmetries, perverse incentives and weak regulatory institutions could threaten the long-run sustainability of the concession". In their eyes the concession is salvageable but needs refinement. They go on to argue that efforts to save the concession by the government and the private companies will continue, not necessarily because of the need for securing clean water for all and improving environmental standards in Buenos Aires, but for reasons of reputation:

An important factor enhancing the credibility of the government's commitment to the concession was the concern of the Argentine government with its reputation in global financial markets. Menem's market-oriented reforms had made the economy open and introduced a currency board that fixed the peso to the dollar. This openness to global economic influences meant that any future federal executive would be concerned about how foreign private investors might react should government renege on the regulatory promises it had made to Aguas Argentinas as part of a large and visible transaction. Reputation can be a powerful tool for contract enforcement, but also somewhat ephemeral. In this case, the force of reputation would depend on how salient investors perceived the concession contract to be when compared to other reputation factors, as well as whether the firm appears to have reneged on its part of the bargain. As we shall show...the executive branch has intervened repeatedly to support Aguas Argentinas in conflicts with the regulator, and to bypass the regula-

tor entirely in renegotiating the contract.

Reputation concerns of the company also have an effect on the sustainability of the contract. The concession is one of the largest and its success is important to the reputation of the consortium partners that are competing in global markets for water contracts (Alcazar *et al.* 2000, 32).

The extent to which efforts to protect the "reputation" of the firms that make up the Aguas Argentinas consortium mean a serious commitment to expanded service delivery, as opposed to continued manipulation of service targets and investment figures, remains to be seen.

## References

- Abdala, M.A. 1996. "Welfare Effects of Buenos Aires' Water and Sewerage Services Privatization." Unpublished manuscript. Washington, DC: The World Bank.
- Alcazar, L., Abdala, M.A., and Shirley, M.M. 2000. *The Buenos Aires Water Concession*. Washington, DC: The World Bank.
- Aguas Argentinas. 2000. <http://www.aguasargentinas.com>
- Anon. 1991. Argentina Racing Against the Clock. *Prensa Economica* 17 (188).
- Anon. 2000a. Another President Caught in Argentina's Economic Trap. *The Economist* November 6.
- Anon. 2000b. *Latin America Press*. 32 (7).
- Artana, D., Navajas, F. and Urbiztondo, S. 1998. *Regulation and Contractual Adaptation in Public Utilities: The Case of Argentina*. Washington, DC: Inter-American Development Bank.
1999. Governance and Regulation in Argentina: A Tale of Two Concessions. In W.D. Savedof and P.T. Spiller, eds. *Spilled Water: Institutional Commitment in the Provision of Water Services*. Washington, DC: Inter-American Development Bank.
- Azpiazu, D. 1999. Las Privatizaciones en la Argentina y la Concentración del Poder Económico. In *Seminario Nacional 1999*. Buenos Aires: Escuela Nacional de Formación Política.
- Azpiazu D., Basualdo, E.M. and Nochteff, H.J. 1998. Menem's Great Swindle: Convertibility, Inequality and the Neoliberal Shock. *NACLA: Report on the Americas* 31<sup>6</sup>.

- Bekker, B. and Marsden, M. 1997. "Buenos Aires: Report on the Study Tour of the Aguas Argentinas Water Concession Operation." Cape Town: mimeo.
- Cieza, D. 1998. Argentine Labour: A Movement in Crisis. *NACLA: Report on the Americas* 31 (6).
- Council of Canadians. 2000. "Corruption Charges Haunt the World's Top Ten Water Companies." Accessed 15 February at <http://www.canadians.org/blueplanet/pubs-fact2.html>
- Dumol, M. 2000. *The Manila Water Concession: A Key Government Official's Diary of the World's Largest Water Privatization*. Washington, DC: The World Bank.
- ETOSS. 2000. "Audiencia Publica." Accessed 2 January at <http://www.etoss.org.ar/contenidos.htm>
- Ferro, D. 2000. *El Servicio de Agua y Saneamiento en Buenos Aires: Privatización y Regulación*. Buenos Aires: CEER.
- Galeano, E. 1973. *Open Veins of Latin America: Five Centuries of the Pillage of a Continent*. New York: Monthly Review Press.
- Hawley, S. 2000. "Exporting Corruption: Privatisation, Multinationals and Bribery. *Corner House Briefing, 19*." Accessed 20 January at <http://cornerhouse.icaap.org/briefings/19.html>
- Idelovitch, E. and Ringskog, K. 1995. *Private Sector Participation in Water Supply and Sanitation in Latin America*. Washington, DC: The World Bank.
- Jaspersen, F. 1997. Aguas Argentinas. in *The Private Sector and Development: Five Case Studies*. Washington, DC: The World Bank and International Finance Corporation.
- Manzetti L. 1999. *Privatization South American Style*. Oxford: Oxford University Press.



Ministerio de Economía y Obras y Servicios Públicos. 1993. *Argentina: A Growing Nation*. Buenos Aires: MEOSP.

Murillo, M.V. 1998. Union Politics, Market-Oriented Reforms, and the Reshaping of Argentine Corporatism. In D.A. Chalmers, C.M. Vilas, K. Hite, S.B. Martin, K. Piester, and M. Segarra, eds. *The New Politics of Inequality in Latin America: Rethinking Participation and Representation*. Oxford: Oxford University Press.

OFWAT. 2000. "Financial Performance and Expenditure of the Water Companies in England and Wales 1999-2000". Accessed 15 February at <http://www.ofwat.gov.uk/pdf/capex2000.pdf>

PADCO (Planning and Development Collaborative International). 2000. *Municipal Service Partnership Study Tour: Brazil, Argentina, Chile, and Australia*. Washington, DC: PADCO.

Picolini, C. 2000. "Afloran las Napas en el Conurbano." *La Nación*, 22 July.

Pirez, P. 1998. The Management of Urban Services in the City of Buenos Aires. *Environment and Urbanization* 10 (2).

Rivera, D. 1996. *Private Sector Participation in the Water Supply and Wastewater Sector: Lessons from Six Developing Countries*. Washington, DC: The World Bank.

Rock D. 1987. *Argentina 1516-1987: From Spanish Colonization to the Falklands War and Alfonsín*. London: I.B.Tauris and Company.

Saltiel. 2000. "Análisis de Riesgo Sanitario y Vulnerabilidad Sanitaria en los Municipios del Area Regulada por el ETOSS: Indicadores Sanitarios y Socioeconómicos", Unpublished manuscript prepared for the ETOSS public hearing on the Buenos Aires Concession, June.

## ENDNOTES

1 A much smaller Maoist group, the Corriente Clasista y Combativa (CCC), also exists but will not be discussed in the context of this paper.

2 SGBATOS is the Union for the Water Sector Workers of Gran Buenos Aires which itself is a part of FENTOSS, the National Federation of Water Workers. Both are in turn affiliated with the CGT, the General Confederation of Workers, the main umbrella labour movement referred to at the outset of this paper.

3 Fundacion de Investigaciones Economicas Latinoamericanas (Latin American Foundation for Economic Research).

4 One interesting aspect of the figures is the five-percent share acquired by the International Finance Corporation, a member of the World Bank group. The IFC originally lent money to Aguas Argentinas before exchanging these debts for a share in the company. Not only does it testify to the instant profitability of the firm (the IFC wanted a share in these profits), it raises questions about the objectivity of World Bank research of the privatization initiative. It also makes the Bank's aggressive promotion of the Argentinian model abroad problematic.

5 Quilmes became part of the concession area in 1995 raising the total population to 9,300,000.

6 The figures quoted for this range from 4,663,670 (Aguas Argentinas 1998) to 4,900,000 (Aguas Argentinas 2000). The concession contract (perhaps the most reliable source) states that 58 percent of the population was connected to the sewerage network. This works out to 4,976,400 of the population with a connection to the sewerage network.

7 Aguas Argentinas argues that prior to privatization water coverage was 67 percent and sewerage coverage at 54 percent, suggesting even greater levels of improvement.

8 Primary treatment merely involves the settling out of undissolved solids

from suspension in the form of sludge. Secondary treatment involves bringing the effluent into contact with oxygen and microorganisms. This breaks down much of the organic matter to harmless substances.

9 It is interesting to note the researchers' exaggeration of connection rates in this case. The figure of 83 percent was not reached until 2000.

10 In the poorer areas of the city, average household incomes are in the range of US\$200-245 per month.

11 According to Americo García, Jr's submission to the public hearing in June 2000, the figures for England and Wales are as low as 6-7 percent and the international average between 6.5 and 12.5 percent.

12 Since the public hearing these plans have been revised slightly but it remains unclear whether increased investments will actually be forthcoming.

13 Indeed one interviewee from ETOSS denied that disconnections even took place. Aguas Argentinas on the other hand preferred to talk of service "regularization" rather than disconnections.

14 The period allowed between the first connection and disconnection in the residential sector is 180 days.